# Weekly Money Market Report
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## UK Finance Minister Resigns Amid Market Turmoil

Highlights

- **US CPI & PPI reports revealed broad-based inflation, further solidifying expectations of the Federal Reserve's aggressive rate-hike path alongside solid jobs reports.**
- **Overall US CPI rose 0.4% last month and 8.2% on a yearly basis. The core figure which excludes volatile items gained 0.6% m/m. Meanwhile, PPI rose by more than expected climbing 0.4% m/m and 8.5% y/y.**
- **Consumer spending in the US was flat in September alongside the higher prices and the Fed's implementation of higher interest rates.**
- **The UK economy disappointed expectations as GDP fell 0.3% m/m amid the historic cost-of-living crisis. Maintenance work in the North Sea oil and gas fields contributed largely to the decline.**
- **UK gilt prices plunged and continued to trade in a volatile matter following the announcement of a financial plan that included tax cuts worth approximately £18bn which was later reversed.**
- **On Friday, UK Prime Minister sacked Finance Minister Kwasi Kwarteng due to weeks of negative reaction from markets over his proposed financial plan.**

## United States

### Producer Price Growth Tops Forecasts

Prices paid to US producers rose in September by more than expected, suggesting inflationary pressures will take time to moderate. The producer price index climbed 0.4% from August, marking the first increase in three months, and was up 8.5% on a yearly basis. The core figure that excludes volatile food and energy components increased 0.3% in September and 7.2% y/y. Although improvements have been seen in supply chain disruptions, costs rose for energy, foods and services. Two-thirds of the increase in the PPI can be traced to services as large price gains were seen in travel and accommodation among others.

### Core Inflation Rises to 40-year High

Following the PPI report, the release of the consumer price index revealed another solid advance, highlighting still rapid and broad-based inflation. Overall CPI climbed 0.4% last month, and was up 8.2% on a yearly basis. Meanwhile the core figure, which excludes volatile food and energy, increased 6.6% from a year ago, reaching its highest level since 1982. On a monthly basis, core CPI climbed 0.6% for a second month. The advance was broad based and the largest contributions were from shelter, food and medical care prices. On the other hand, prices for gasoline and used cars declined.

Following a solid jobs report, the inflation data will likely secure the Federal Reserve's aggressive interest rate-hike path and will cement an additional 75 basis point hike at the Fed's November policy meeting. Traders also priced in a higher peak Fed rate for next year. Noteworthy, geopolitical events may keep inflation elevated as OPEC+ recently announced production cuts and Biden's potential gasoline export ban may backfire with higher pump prices. In addition, the Russia-Ukraine war continues to disrupt supplies of commodities.

### Retail Sales Fall Flat

Consumer spending was unchanged in September as prices moved sharply higher and the Federal Reserve implemented higher interest rates to slow the economy. Overall sales were flat while the core figure advanced just 0.1%. Considering retail sales numbers are not adjusted for inflation, the report indicates real spending retreated for the month. Although gains for the month were muted, retail sales rose 8.2% on a yearly basis -

matching the rise in CPI. Shoppers are generally flush with cash, however there are indications that they are beginning to dip into savings to make ends meet.

### Market Movements

Safe-haven flows continue to support the USD and place pressure on peers. While the EUR/USD pair ended lower last week lower, the GBP/USD gained ground after receiving positive news following two weeks of market turmoil that sent the pound to a low of 1.0382. Additionally, amid an increasing divergence between a dovish BOJ and tighter Fed monetary policy, the USD/JPY pair rose to its highest levels since 1990.

## United Kingdom

### Truss Manages "Mini Budget" Backlash

As governor of the Bank of England, Andrew Bailey is facing a difficult task of reining in inflation, which is rising at the fastest pace in 40 years. Furthermore, he must now face the fallout from the policies of newly appointed Prime Minister Liz Truss, who last week requested the resignation of Finance Minister Kwasi Kwarteng.

On September 23, Kwarteng made a financial statement regarding tax cuts which quickly turned into an economic and political disaster. The "mini budget" included a plan to cancel a proposed tax increase from 19% to 25% - worth approximately £18bn. Truss believed heavy tax cuts, deregulation and free-market economics would reignite the UK's growth. That represented a drastic shift in policy that discouraged global investors who are already facing an energy crisis, surging inflation and a recession.

The tax cuts combined with the intervention to cap soaring household energy bills stemming from Russia's war in Ukraine will require tens of billions of pounds in government borrowing, deepening anxiety about Britain's finances. Although Kwarteng and Truss were forced to retreat from the proposed tax cuts, it did little to restore calm. Government bond prices plunged, forcing the Bank of England to apply a two-week intervention after having been informed that a number of liability driven investment funds — held by pension plans — were hours from collapse.

After discharging her finance minister, Truss scrapped more key policies on Friday in a bid to calm markets. "It is clear that parts of our mini-budget went further and faster than the markets were expecting," Truss said in a brief press conference. UK gilts rallied sharply ahead of Truss' news conference, with the long-dated 30-year yield briefly touching a low of 4.24%.

### Unexpected Decline in GDP

The UK economy disappointed expectations by shrinking in August as the cost-of-living crisis backed a sharp decline in manufacturing production and consumer prices, implying the economy may already be in recession. Maintenance work in the North Sea oil and gas fields contributed largely to the decline. Gross domestic product fell 0.3% in August compared with July, falling short of predictions for no monthly change. On a quarterly basis, economic output was down 0.3%, also below expectations. Despite the disappointing data, markets are still expecting a 75 basis point increase by the Bank of England due to its battle with persistently high inflation.

Moreover, manufacturing output fell by 1.6% while services, which dominates the British economy, fell by 0.1%. Compared to pre-pandemic levels, factories are now producing 2% less, while service sector activity is 0.2% weaker. The data underscores the challenge for new Prime Minister Liz Truss. Additionally, their plan for unfunded tax cuts sent financial markets into turmoil and has raised expectations for how quickly the BoE will push up borrowing costs.

Higher energy prices are contributing substantially to the trade deficit, as the country's importers have to pay more for oil. Goods imports climbed by £3.1bn in August, outstripping a £400m increase in exports.
Britain's economy looks set to slow sharply as surging inflation hits households and forces the Bank of England to raise interest rates quickly, even as activity stagnates.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.31035

## Rates – 16th October, 2022

| | Previous Week Levels | | | | This Week's Expected Range | | 3-Month |
|---|---|---|---|---|---|---|---|
| Currencies | Open | Low | High | Close | Minimum | Maximum | Forward |
| EUR | 0.9735 | 0.9631 | 0.9808 | 0.9719 | 0.9434 | 0.9830 | 0.9803 |
| GBP | 1.1080 | 1.0922 | 1.1379 | 1.1170 | 1.0855 | 1.1330 | 1.1198 |
| JPY | 145.35 | 145.22 | 148.86 | 148.74 | 146.80 | 152.30 | 146.99 |
| CHF | 0.9935 | 0.9913 | 1.0074 | 1.0051 | 0.9896 | 1.0350 | 0.9948 |